

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03

INR-10 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

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P R 232025Z MAR 78

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 6742

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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E.O. 11652: N/A

TAGS: EFIN, BR

SUBJECT: FOURTH MINI-DEVALUATION IN 1978 AND SELECTED FINANCIAL
INDICATORS FOR FEBRUARY

REFS: (A) BRASILIA 1228 (B) BRASILIA 1666

1. EXCHANGE RATE: THE GOB ANNOUNCED ON 23 MARCH THE
FOURTH DEVALUATION OF THE CRUZEIRO IN 1978. THE NEW
CRUZEIRO/US DOLLAR RATES OF 16.845 BUYING AND 16.945
SELLING BECAME EFFECTIVE MONDAY 27 MARCH (THURS AND FRI,
23-24 MARCH ARE BANK HOLIDAYS IN BRAZIL). THE RATE
CHANGE CAME AFTER AN INTERVAL OF 24 DAYS AND AMOUNTED TO
1.9 PERCENT SINCE THE LAST MOVEMENT. THE NEW RATES
REPRESENT CUMULATIVE DEVALUATION OF 5.6 PERCENT IN 1978
AND AN ANNUAL RATE OF DEPRECIATION OF APPROXIMATELY 28
PERCENT. THE PARALLEL MARKET HAS DECLINED SOMEWHAT IN
THE LAST MONTH TO ABOUT CR\$19.5/DOLLAR, OR A
PREMIUM OF ABOUT 18 PERCENT OVER THE OFFICIAL RATE
PREVAILING AS OF MID-MARCH.

2. PRICES-VARGAS FOUNDATION DATA INDICATE THAT THE
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RATE OF INFLATION INCREASED SOMEWHAT IN FEBRUARY. THE
GENERAL PRICE INDEX (INTERNAL SUPPLY) INCREASED
3.4 PERCENT DURING THE MONTH, GIVING CUMULATIVE INCREASES
OF 6.2 PERCENT IN THE 2 MONTHS OF 1978 AND 37.6 PERCENT
IN THE LAST 12 MONTHS. THE WHOLESALE PRICE INDEX ROSE
3.6 PERCENT IN FEBRUARY AND CUMULATIVELY 36.4 PERCENT
SINCE FEB 1977. THE INCREASE IN COST-OF-LIVING IN

FEBRUARY WAS 3.6 PERCENT IN RIO AND 3.9 PERCENT IN
SAO PAULO. THE CUMULATIVE ANNUAL RATES OF INCREASE
IN THE COST-OF-LIVING WERE 39.8 PERCENT IN RIO AND
38.4 PERCENT IN SAO PAULO, THROUGH THE END OF
FEBRUARY 1978.

3. FOREIGN TRADE-FOR THE SECOND CONSECUTIVE MONTH
IN 1978 BRAZIL RECORDED A TRADE DEFICIT. EXPORTS OF
\$820 MILLION AND IMPORTS OF \$990 MILLION, ACCORDING
TO PRELIMINARY DATA, RESULTED IN A DEFICIT OF
\$170 MILLION IN FEBRUARY. THE CUMULATIVE DEFICIT FOR
JAN-FEB WAS \$348 MILLION. PETROLEUM IMPORTS AMOUNTED
TO \$352 MILLION IN FEBRUARY WHILE COFFEE RECEIPTS
INCREASED ONLY marginally TO \$119 MILLION. MINISTER
SIMONSEN HAS ACKNOWLEDGED A POSSIBLE DECLINE OF
\$800 MILLION IN AGRICULTURAL EARNINGS IN 1978 BUT
EXPECTS 20-25 PERCENT GROWTH IN MANUFACTURED EXPORTS
TO COMPENSATE AND PERMIT MAINTENANCE OF AN OVERALL
TRADE SURPLUS FOR THE YEAR.

4. MONETARY-THE MONEY SUPPLY EXPANDED BY
1.6 PERCENT IN FEBRUARY. THE CUMULATIVE CONTRACTION
SINCE THE END OF 1977 THUS WAS REDUCED TO 5.0 PERCENT.
CONTINUED PHASED RELEASE OF THE CRUZEIRO PROCEEDS OF
FOREIGN LOANS STERIALIZED IN NOV-DEC 1977 ACCOUNTED
IN LARGE PART FOR THE EXPANSION. CENTRAL BANK PRESIDENT
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PAULO LIRA HAS STATED THAT THE MONETARY AUTHORITIES
DO NOT INTEND EARLY ELIMINATION OF THE ADDITIONAL
5 PERCENT COMMERCIAL BANK COMPULSORY RESERVE
REQUIREMENT WHICH QUOTE TEMPORARILY END QUOTE RAISED
THE TOTAL FROM 35 TO 40 PERCENT IN LATE 1977.
PREVAILING INTEREST RATES IN INVESTMENT BANKS RANGE
FROM 48-54 PERCENT AND BANKERS DO NOT FORESEE ANY
DECLINE IN THE NEAR FUTURE IN VIEW OF EXISTING
MONETARY RESTRAINTS AND THE PICKUP IN INFLATION
IN FEBRUARY.

5. REAL ECONOMIC ACTIVITY-STEEL PRODUCTION
CONTINUED TO RISE WITH OUTPUT IN JAN-FEB 1978
8.7 PERCENT HIGHER THAN IN THE FIRST TWO MONTHS OF
1977. CONSUMPTION OF PETROLEUM PRODUCTS DURING THE
SAME COMPARATIVE PERIODS WERE UP 4.8 PERCENT, IN
PART OWING TO STOCKPILING IN ANTICIPATION OF
DOMESTIC PRICE INCREASES IN EARLY MARCH. RETAIL
SALES IN RIO IN JAN-FEB WERE 3.7 PERCENT HIGHER THAN
IN THE SAME TWO MONTHS LAST YEAR. EMPLOYMENT IN
SAO PAULO IN FEB 1978 WAS ONLY 1.7 PERCENT HIGHER THAN
IN FEB 1977. THE GOB ANNOUNCED THAT PERMITTED

INCREASES IN WAGES IN MARCH WOULD BE 39 PERCENT OR THE SAME AS IN FEBRUARY. AGRICULTURAL PRODUCTION IN THE CENTRAL SOUTH REGIONS IS SUFFERING FROM NEAR DROUGHT CONDITIONS. FIRM DATA ARE NOT AVAILABLE ON THE EXTENT OF THE DAMAGE BUT PRELIMINARY ESTIMATES OF 15-25 PERCENT DECLINES IN PRODUCTION OF SOYBEANS, CORN, AND OTHER CROPS INDICATE THAT 1978 WILL NOT BE A GOOD YEAR FOR AGRICULTURE. THE IMPLICATIONS FOR INFLATION AND THE TRADE BALANCE ARE NOT YET QUANTIFIABLE BUT COULD BE SIGNIFICANT.
JOHNSON

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